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Lithuania

Retail Food Sector

Report

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Report Highlights:

Imports account for one-fifth of total retail food sales in Lithuania. However, food products manufactured in the U.S. are fairly rare on the Lithuanian market. The fiercest competition is from Germany. Best prospects for US exporters include concentrates and sauces. This report provides an overview of the Lithuanian retail food sector.

Includes PSD changes: No
Includes Trade Matrix: No
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CONTENTS

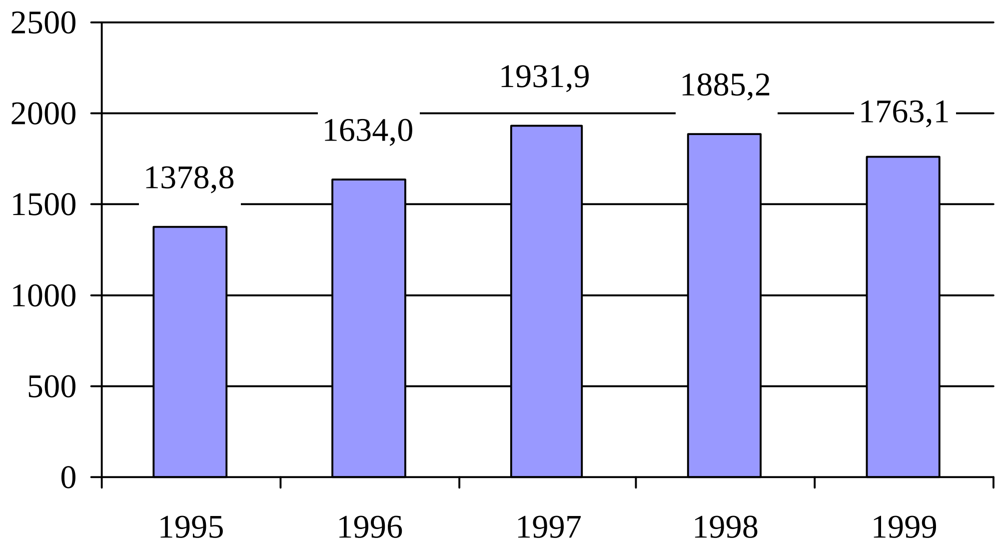
AN OVERVIEW OF THE FOOD RETAILING SECTOR

Retail trade is one of the most rapidly developing sectors of the Lithuanian economy. The total retail trade turnover rose 1.8 times from 1995 to 1998. However, as compared with 1998, it edged down by 11.6 percent and totaled 3.84 billion US dollars in 1999 (The official exchange rate is 4 LTL=1 US dollar).

This reduction in the volume of retail trade reflected the country's general economic downturn. The loss of Lithuania's trading routes in the CIS countries, and particularly in Russia, triggered financial difficulties for Lithuanian households, businesses and the government. This led to a decrease in expenditures.

From 1995 to 1999, the year 1997 brought in the largest amount of income – a total of 1.93 billion US dollars – from food retailing (marketplaces and catering included). As compared with 1997, retail sales of food products and beverages went down by 2.4 percent in 1998 and by 8.7 percent in 1999.

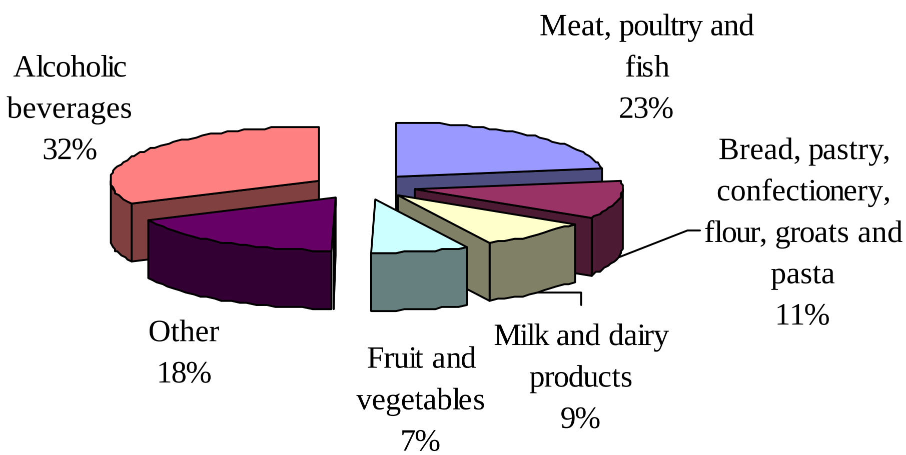
Figure 1. Food retailing (including trade in institutional food service sector**)**
in Lithuania from 1995 to 1999 (million US dollars)



Compiled based on the data of the Lithuanian Department of Statistics

In 1999, alcoholic beverages accounted for the biggest share – 32.1 percent – of the total value of food products sold through retail trade and catering. Meat, poultry and fish constituted 22.5 percent. Bread, pastry, confectionery, flour, processed grains (groats), and pasta totaled 11.4 percent. Milk and dairy products comprised 8.9 percent.

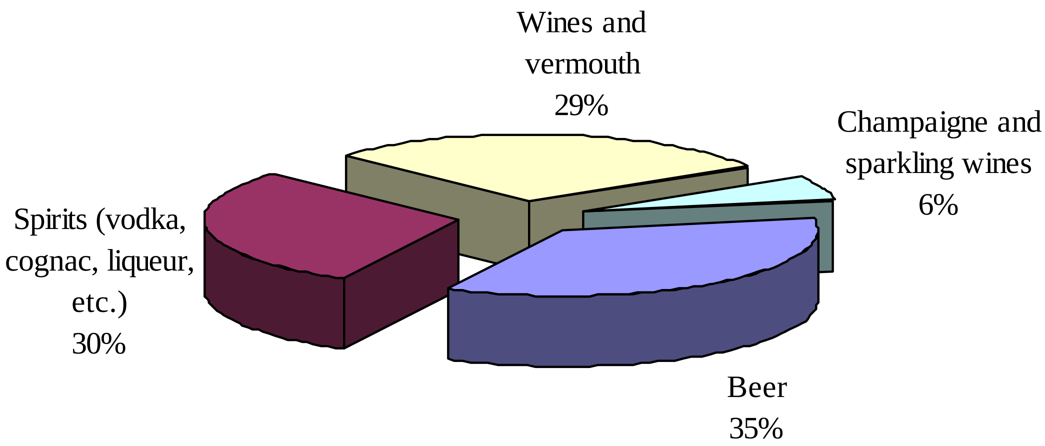
Figure 2. Retail food sales by commodity in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

In the past five years, only alcoholic beverages showed a steady increase in the volume of sales. The sales of alcoholic beverages rose from 370.2 million US dollars at current prices in 1995 to 566.3 million US dollars in 1999. It should be noted that beer retailing (catering included) brought the largest income of all alcoholic beverages.

Figure 3. Retail sales of alcoholic beverages in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

Imports account for 60 percent of total retail sales of fruit and vegetables in Lithuania as well as for 17 percent of total retail sales of alcoholic beverages. The same indicator for bread, pastry, confectionery and sweets is 10 percent, and for meat and meat products it is a mere 5 percent.

Retail trade in meat, poultry and fish has changed insignificantly in the past five years. In 1999, it amounted to 397.6 million US dollars. In 1999, the volume of dairy retailing totaled 157.9 million US dollars, down by 8.6 million US dollars from 1995. Milk and dairy products accounted for a mere 8.9 percent of total sales in 1999, down from 12.2 percent in 1995.

Table 1. Food retailing at current prices from 1995 to 1999 (million US dollars)

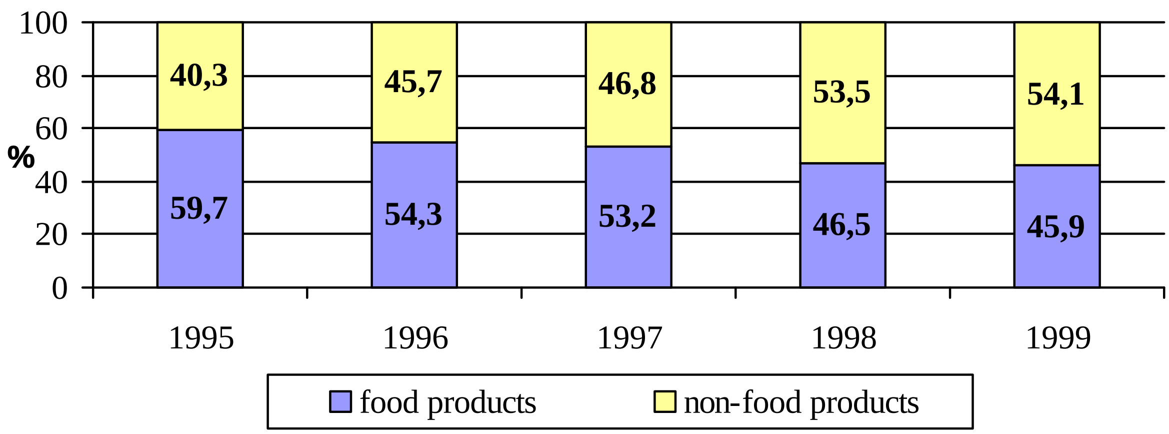
Commodities	1995	1996	1997	1998	1999
Meat, poultry and fish	294.1	400.4	418.1	385.6	397.6
Milk and dairy products	169.0	174.4	245.7	188.5	157.9
Bread, pastry products, confectionery, flour, groats, and pasta	140.7	151.8	223.3	200.9	200.4
Fruit and vegetables	125.5	129.4	163.4	153.7	131.8
Alcoholic beverages	370.2	434.4	499.4	534.2	566.3
Other	279.3	343.5	381.9	422.2	309.0
Total:	**1378.8**	**1634.0**	**1931.9**	**1885.2**	**1763.1**

Compiled based on the data of the Lithuanian Department of Statistics

Food retailing (catering included) shrank by about 6.5 percent (down to 1.76 billion US dollars) in 1999 as compared with 1998. The amount of goods sold (at constant prices) decreased somewhat less, as food prices fell by an average of 3.9 percent in 1999. This suggests that the demand for consumption goods remained rather stable despite economic difficulties.

The share of food products and beverages in total retail sales went down from 60 percent in 1995 to 46 percent in 1999.

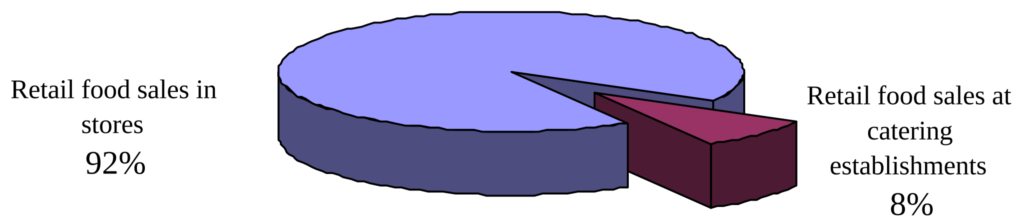
Figure 4. Food and non-food commodities as a percentage of retail trade turnover (marketplaces included) from 1995 to 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

The bulk of food products are sold in groceries, variety stores, and marketplaces. In 1999, 92 percent of all food products in terms of value were sold through these shopping outlets, with the remaining 8 percent sold at catering establishments. Both these sectors were developing at the same pace, with their shares of sales remaining at the same level.

Figure 5. Retail food sales by outlet

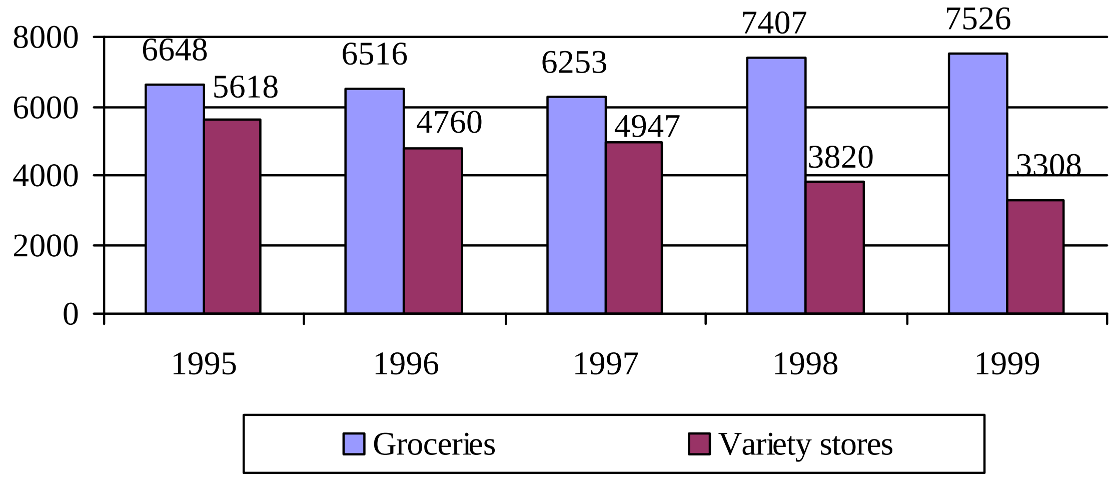


Compiled based on the data of the Lithuanian Department of Statistics

It should be noted that alcoholic beverages sold at catering establishments carry retail trade margins in the range of 100–200 percent, while margins for food products range between 50 and 100. Grocery retailers charge an average of 30 percent added for all food products.

In 1999, there were 19,401 retail stores of different types in Lithuania. Food products were sold in 56 percent of them, including 7,526 groceries and 3,308 variety stores trading in food and non-food commodities. From 1999 to 1995, the number of groceries rose by more than 13 percent, while the number of variety stores slumped by 41 percent.

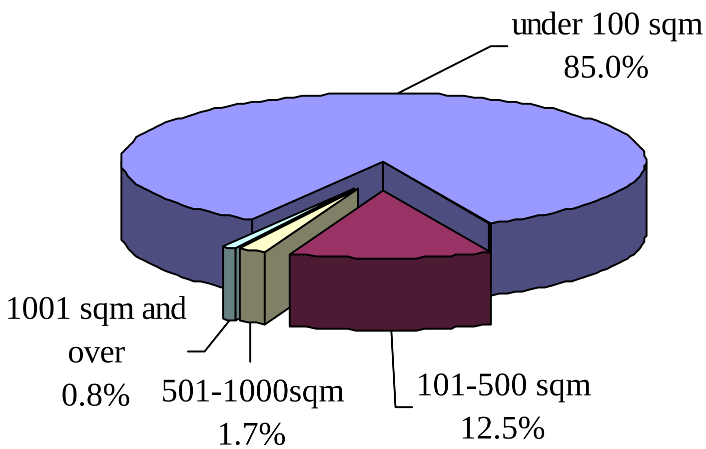
Figure 6. The number of groceries and variety stores in Lithuania from 1995 to 1999



Compiled based on the data of the Lithuanian Department of Statistics

A similar trend was observed with regard to selling space. The selling area occupied by all groceries exceeded 590,000 square meters and accounted for about 36 percent of the country's total shopping floor space. Variety stores occupied 273,000 square meters of total selling area.

Figure 7. The number of stores by shopping floor space in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

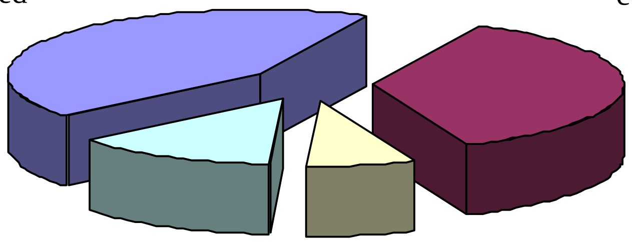
In Lithuania, shopping floor space per capita is smaller than in the European Union, 0.5 and 1.1 square meters accordingly.

In 1999, monthly consumption expenditures per household member were estimated to be 106 US dollars, an increase of 22 percent as compared with 1996 and a reduction of 0.3 percent as compared with 1998.

In 1999, household expenditures on food (money spent in canteens, restaurants and cafes excluded) accounted for 46 percent of all consumption expenditures. They totaled an average of 48.5 US dollars per household member per month. In 1999, household expenditures on food dropped by 2.4 percent as compared with 1998 and by 9.5 percent as compared with 1996. This reduction in food expenditures in absolute terms and as a percentage of total household expenditures was due to a decline in food prices.

Although market concentration of shopping centers is underway, the largest investments are going into renovation or construction of large stores and supermarkets. About 43 percent of food products are sold in small and medium-sized stores, 37 percent is sold in large shopping centers, and 20 percent is sold at marketplaces and kiosks.

Figure 8. Food sales by outlet (percent)



Source: the Economic Consulting and Research firm

Considerations for suppliers of food products entering the Lithuanian food retailing market are as follows:

Strengths	Weaknesses
Imports account for one fifth of total retail food sales in Lithuania.	Food products manufactured in the U.S. are fairly rare on the Lithuanian market.
Lithuania has well-developed store chains relative to the other Baltic States.	The food market is small; processed food purchases are low.
Lithuanian youth is accepting American culture.	High customs duties are charged in order to protect local manufacturers.
Lithuanians are increasingly using shopping centers instead of marketplaces.	Lithuanians tend to buy domestic production.
Lithuanians consider food products manufactured in the U.S. to be of good quality.	There is a lack of information about U.S. products in the Lithuanian retail sector and among Lithuanian consumers.

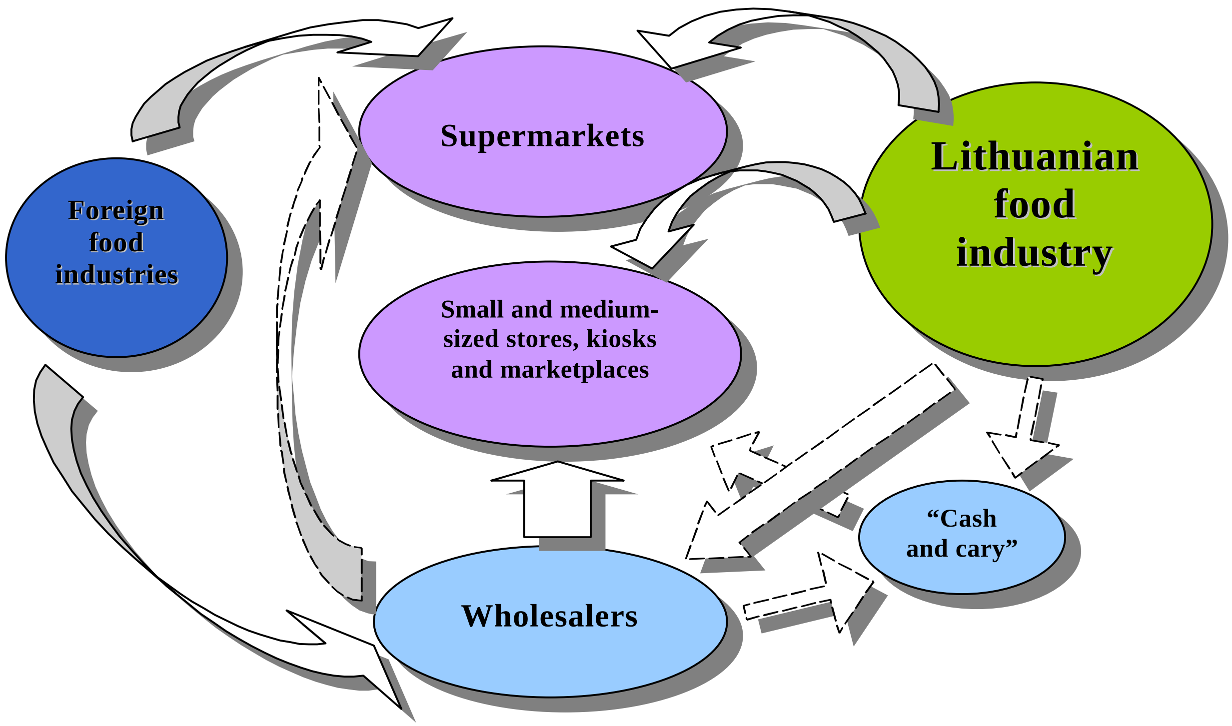
THE CHANNELS OF SUPPLY OF FOOD PRODUCTS

Food retailers obtain supplies through two main distribution channels: (1) directly from food producers; and (2) from wholesalers.

Dairy as well as most meat, bread and pastry products are supplied directly by manufacturers. Wholesalers supply groceries, most beverages and imports with a longer shelf-life period. Some retailers use cash and carry wholesalers. Yet, these comprise a negligible share of the market. The main channels of distribution of food products to retailers are shown in Diagram 1.

Diagram 1. Channels of product distribution to the retailing sector

There are about 200 companies operating in the food import and wholesaling business. These companies may be divided into five categories:



1. *Large distributive companies* that represent the world's leading food manufacturers and local producers. These companies have wide and deep assortments of merchandise. They focus on wholesaling activities across Lithuania but have no retail store chains of their own. Such companies are ***Sanitex*** distributing Procter&Gamble products, ***Trojina*** trading Neste, Unilever products etc.

2. *Companies that operate their own retail systems*. In addition to supplying their own retail store chain, they compete in the wholesaling business by offering a wide and deep assortment of merchandise to other food retailers. The leader of this kind company is VP Market which actually has close to 10-15 percent retail market share of food.

3. *Small independents* that represent and distribute commodities of several (from 2 to 5) foreign producers. These companies offer a small assortment of non-competing items.

4. *Companies that have been established for the purpose of distributing products of one manufacturer or a group of manufacturers*. In most cases such companies pursue a strict selling policy with regard to supplies (from the manufacturer) and have no discretion in composing their assortments.

5 . *Co-operative societies* that are established by small independents from the retail sector in order to create independent systems of supplying merchandise, especially food products, to small stores that can better serve their specific needs than large wholesalers.

MARKET ENTRY POSSIBILITIES

A strategy for Market Entry

Before 1990, the availability, as well as the variety of food products, were very limited throughout Lithuania. Beyond staples, there were few food items offered, and their availability was erratic and limited. With the transition to a market economy in 1990, a wide variety of food products flooded the market and were readily absorbed by the population. However, by 1998 and 1999 the absorption rate of new products had sharply declined.

Today the leading wholesalers are trying to optimize their assortments and the number of suppliers. Such developments are determined by the fact that stores with over 400 square meters of selling space are defined as large in Lithuania, and the main large stores are 1,000 to 2,000 square meters in size. There is no economic rationale for offering a wide assortment of merchandise in such retail stores.

This suggests that any new food products in retail trade are likely to replace existing ones. Companies seeking to introduce new products need to prove that there will be sufficient demand for them on the Lithuanian market and that these new products hold distinctive advantages to those currently on the shelves. This requires aggressive marketing, including advertising, promotion, etc.

The largest sales can be achieved by 6 to 10 major wholesalers operating distribution chains all over Lithuania and covering all major retailing systems. If the aim is to use large wholesalers already in operation in Lithuania, it is essential to establish structures that will undertake the task of sales promotion. Therefore, if distribution is entrusted to large distributive companies, representative offices may be established in Lithuania or the other Baltic States to carry out promotion activities.

Table 2. The largest food and beverages wholesalers

Company	Wholesale trade	Sales in 1999 (million US dollars)	Address
VP Market	Food products	234.8	Vilnius, 99 Naugarduko St.
Sanitex	Food products	131.8	Kaunas, 98-3 Taikos Ave.
Eugesta	Food products	30	Vilnius, 30 Pylimo St.
Trojina	Food products	30	Vilnius, 16 J.Jasinskio St.
Mineraliniai Vandenys	Alcoholic beverages, tobacco products	24,8	Vilnius, 16 J.Jasinskio St.
Bennet Distributors	Alcoholic beverages	24.5	Vilnius, 2b Metalo St.

Companies with speciality food products, such as diabetic and dietic food items, as well as companies offering products with high value content such as luxury goods, are less interested in mass distribution of their products and may select small or medium-sized distributive companies operating in Lithuania.

Small independent distributive firms may be interested in undertaking the task of organizing the launch and promotion of new products on the Lithuanian market provided an appropriate budget has been projected and agreed upon. If the new products carry some price appeals, the Lithuanian distributors may choose to assume most of the risk related to the launch of the new product in Lithuania.

Establishing a wholesale business of one's own would require the largest investments. This may be a workable solution if the aim is to sell large quantities of goods and to compete with the existing transnational companies already operating on the Lithuanian market. A small market share may be gained by offering products directly for retailing chains that would sell them to their own multiples only.

At present, supermarkets with 5,000 to 8,000 square meters of shopping floor space are being established in Lithuania. They aim to deepen the traditional assortments of merchandise, a trend that may be exploited for introducing a broader range of American goods on the Lithuanian market.

The launch of new products may be complicated by a lack of experience in working with American products on the Lithuanian market. Traditionally, Lithuanian retailers have followed Western European, especially German, traditions.

Given that the Lithuanian market is small and people's purchasing power is low, the price, which is affected by transportation costs and tax policies, is frequently the main factor influencing competition. Customs duties are applied to a number of food imports. It should be taken into account that food products may be brought into the country only through the Republic of Lithuania's border crossing points that have food control border services.

Table 3. Target import tariffs on certain food products applied by Lithuania

Food products	Import tariffs
Fresh or frozen tomatoes	40-45%
Cucumbers	50-55%
Fresh or frozen beef	37%
Pork	32%
Milk concentrate, condensed milk and cream	26%
Cheese and curd	24%
Butter	60%
Confectionery products of sugar	25%

Companies that are getting established and launching manufacturing activities in Lithuania may hope for amelioration of these conditions in certain cases. The Lithuanian government's promises not to levy import duties on sugar brought into the country for processing purposes by the Coca-Cola company may be regarded as an important precedent.

TYPE OF RETAILING COMPANIES

In the past few years, the Lithuanian retailing sector has undergone a certain degree of market concentration. By different estimates, local multiples account for 30 to 40 percent of the country's retail trade in food products. In large cities, this share is estimated to be even bigger. In 1999, the sales of the largest store chain, VP MARKET, amounted to 275 million US dollars, or 3 to 3.5 times the sales of its main rivals Ekovalda or IKI.

Table 4. The largest multiples in Lithuania

Company name	Brand of stores	1999 sales (million US dollars)	Number of stores
VP MARKET		**275**	**76**
	MAXIMA		9
	MEDIA		10
	MINIMA		13
EKOVALDA		**70,25**	
	EKO		25
IKI	IKI	**62,5**	**22**
Vikonda	***Vikonda***	**n.a.**	**13**

As major multiples embracing large shopping centers are pursuing aggressive expansionist policies, small retailers are attempting to counterweight the competition by uniting (e.g., a Retail Trade Association has been established in ***Klaipeda***. An ***Utena Regional Consumers Co-operative*** is operating in Utena. ***A United Trade*** joint-stock company is operating in Kaunas). Such organizations are usually restricted to one town or cover a whole region. This is one way of reducing the costs of supply. An ***Aibe*** system, which unites companies trading in all regional units of the country, is operating in the whole of Lithuania.

VP MARKET, IKI and ***EKOVALDA*** are companies that commenced concentration processes in the retail sector seeking, first and foremost, to merge into chains large stores with more than 400 square meters of selling space that may be classified as general shopping centers. Food products account for the bulk of their sales, although a shallow assortment of non-food merchandise is offered as well. These stores are characterized by merchandise range catering Lithuanian consumers as well as location convenience. Stores of this type attract significant buyer flows.

Four types of stores form the basis of food retailing companies: *supermarkets and large department stores, small and medium-sized groceries and variety stores, kiosks, gas station stores, and marketplaces.*

Supermarkets

The ***MAXIMA*** shopping centers belonging to ***VP MARKET*** as well as several chain stores of ***EKOVALDA*** and ***IKI*** best conform to the definition of supermarket. Apart from trade in food products and other consumption goods, ***MAXIMA*** offers a range of services. It operates drugstores, pizzerias, and other businesses. The selling area of these shopping centers ranges between 5,000 and 8,000 square meters. In 2000, ***VP MARKET*** is opening a shopping center near Vilnius that will conform to the international concept of hypermarket.

Small and Medium-Sized Stores

Small and medium-sized stores are small in size and offer a wide but shallow assortment of merchandise. They are located in or near housing estates or near places of work. Small and medium-sized independents dominate in Lithuania. Small stores occupy the market of small settlements where there is no economic rationale for establishing large chain stores. In small and medium-sized stores, the most saleable food products are items of everyday use: bread, dairy and meat products, fruit, vegetables, sugar, etc.

Kiosks

The number of kiosks has changed very insignificantly over the past few years, with a decrease estimated at a few percent only. Changes in quality have been more pronounced though. Many kiosks have switched from selling a variety of goods into modern-exterior newspaper stalls or kiosks offering a range of merchandise characterized by a high turnover rate. In Lithuania, the average size of kiosks is about 7 to 8 square meters. It should be noted that the amount of certain goods, such as cigarettes, chocolate bars, chewing gum, etc., sold in kiosks is comparable to that of shopping centers.

Gas Stations

Although the sale of gas is the main source of income received by gas stations, negligible differences in the prices of gas quoted by competing companies have reduced competition among gas stations to the minimum. Therefore, profits generated by gas stations depend to a great extent on the supply for other goods.

Among food products offered by gas station stores, there are mainly food items of everyday use, snacks (refreshing drinks, chocolate bars, fruit, vegetables, and chips) as well as fast food (sausages, coffee, etc.). Gas station stores operate non-stop.

Marketplaces

There were 109 marketplaces in Lithuania in 1999. Prices at marketplaces are 10 to 15 percent lower than those quoted by shopping centers. According to market experts, a reduction in income that marketplaces recorded in the past few years has been caused by the activities of shopping centers. Still, marketplaces remain quite popular among Lithuanian consumers. Fruit and vegetables remain the most saleable marketplace commodities. Apart from the local production, Polish, Bulgarian, Hungarian and Italian products are sold. Meat products occupy a distinct position among commodities sold at marketplaces. At the beginning of 2000, about 60 percent of all meat sold in Lithuania was sold at marketplaces.

Table 5. Households purchasing at marketplaces (percent)

Commodity	Rural areas (%)	Towns (%)	Cities (%)
Fruits and vegetables	29	73	76
Sugar	53	58	47
Coffee	46	58	48
Tea	44	52	46
Fresh meat	17	62	61
Eggs	10	59	60
Sweets and biscuits	33	46	31
Dairy products	6	42	34
Alcoholic beverages	19	22	10
Average	**29**	**52**	**46**

Source: The Baltijos Tyrimai research company

PROSPECTS OF SECTOR DEVELOPMENT

According to expert estimates, an upturn in the Lithuanian economy is expected to bolster sales in 2001. In the past few years, the infrastructure of food trade in Lithuania has yielded to the trends that have prevailed in Eastern Europe: the number of stores has dropped, while they have grown in size. This refers particularly to cities. In Lithuania, the trend is towards increased use of large shopping centers.

At present, the building of large shopping centers has the best prospects in Lithuania. This trend will continue into the next two or four years. However, despite an increase in the number of shopping centers, certain market niches are likely to be filled by small retail stores.

It is anticipated that Western retailers (from Germany, France or Italy) will be gradually penetrating the markets in Lithuania and the other Baltic States. They are expected to start establishing regional distribution centers, integrating them into Central European chains, and building hypermarkets. About 20 to 30 stores of this type are likely to be built in the Baltic countries. Small-scale retailers may well press for holding in check such expansionist developments.

In order to reduce the level of unemployment, the government is likely to improve administrative rules applicable to retail trade and to promote small-scale retailing. National capital will most probably continue to play a significant role in market concentration processes in the retail trade sector.

In order to serve diverse needs of consumers, large trading companies are likely to promote strategic partnership contracts and to establish joint ventures with banks, insurance companies, and suppliers of telecommunications and Internet services. This may broaden considerably the range of services and entertainments available at shopping centers.

Wholesalers are likely to start trading with their clients through the Internet. It is anticipated that, in order to enhance the supply process and to cut operating costs, large retailers will be interested in concluding supply contracts directly with producers. Over time, even competing store chains may establish joint supply structures.

COMPETITION

Competition among suppliers of food products in retail trade intensified particularly in 1998 and 1999. This was due to a number of reasons:

1. Lithuanian producers lost traditional trading routes in the CIS countries and focused their efforts on absorbing and preserving the domestic market.

2. Local food manufacturers installed new technologies and launched manufacture of analogues of quality comparable to that of products imported from the West.

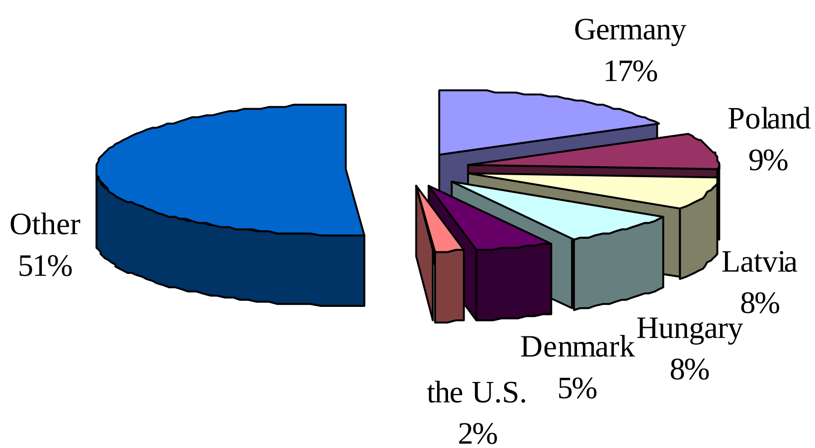
3. The purchase of food products declined due to difficult economic conditions in Lithuania.

4. For economic and ideological reasons, consumers prefer to buy local production.

5. A number of leading transnational manufacturers have penetrated and established themselves on the Lithuanian retail trade market.

From 1996-1999, the share of imports of total food sales in Lithuania slipped from 25 percent to just over 20 percent. The sales of local production at retail prices totaled 1.22 billion US dollars, while imports brought in 385 million US dollars. Among the largest processed food exporters to Lithuania are Germany (17 percent), Poland (9 percent), Latvia and Hungary (8 percent each).

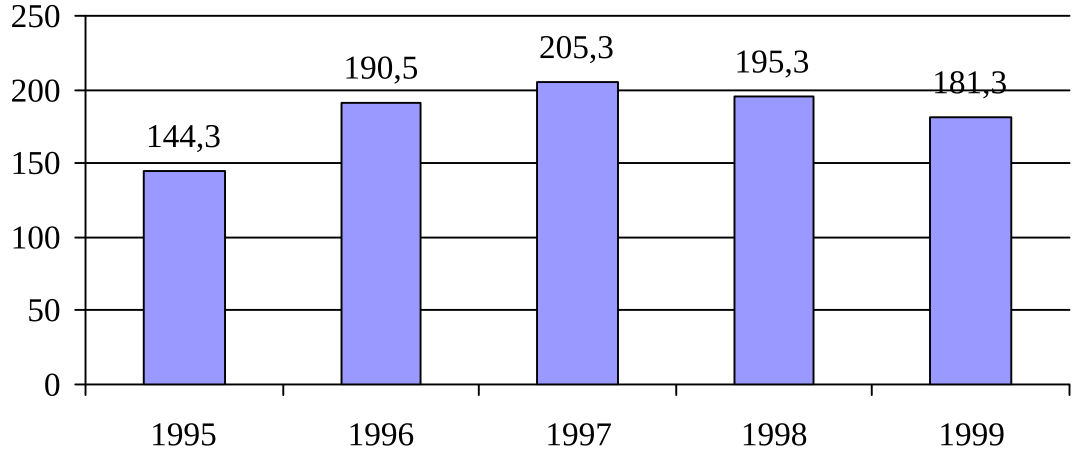
Figure 9. Processed food imports to Lithuania by country in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

From 1995 to 1997, imports of processed foods and beverages rose by more than 40 percent, but it dropped by 12 percent during 1999. Declining imports increased competition among food suppliers for the Lithuanian market.

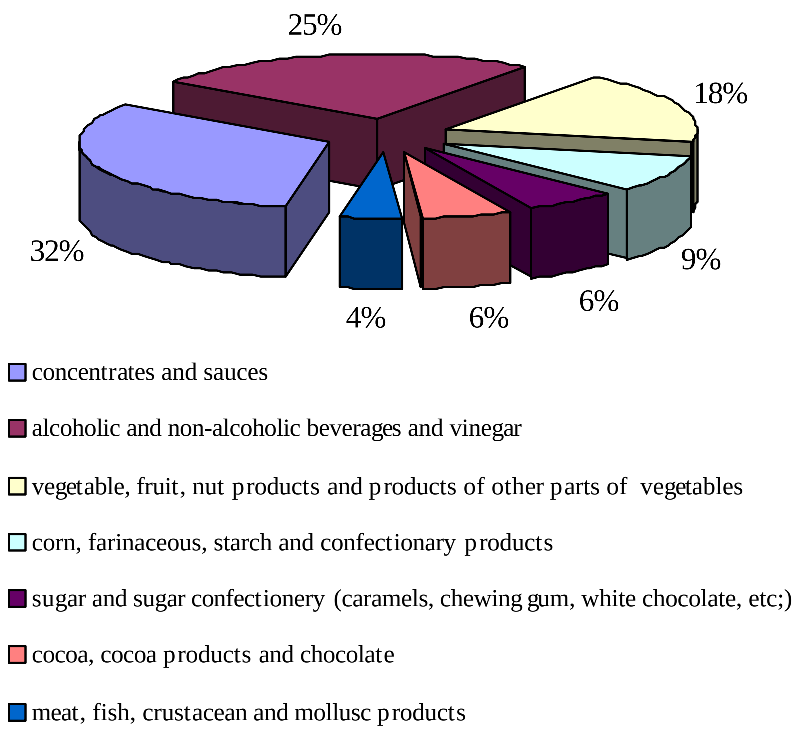
Figure 10. Imports of processed foods and beverages from 1995 to 1999 (million US dollars)



Compiled based on the data of the Lithuanian Department of Statistics

The reduction in imports of processed foods was almost twice as large as the total decrease in food sales recorded in 1998 and 1999.

Figure 11. The composition of imports of processed foods in 1999 (percent)



Compiled based on the data of the Lithuanian Department of Statistics

Analysis of changes in the volume of imports of processed foods from 1996 until 1999 shows that imports of meat, fish and crustacean products as well as mollusks did not change and remained at the level of 4 percent. At the same time, the share of sugar and confectionery imports dropped from 20 percent in 1996 to 6 percent in 1999. The imports of cocoa, cocoa products and chocolate were a downward trend as well. They fell from 15 percent in 1996 to 6 percent in 1999.

Imports of concentrates and sauces increased from 21 percent in 1996 to 32 percent in 1999. Similar trends were recorded for alcoholic, non-alcoholic beverages and vinegar products (an increase from 18 percent in 1996 to 25 percent in 1999).

PRODUCTS IN DEMAND

A. PRODUCTS OFFERED ON THE LITHUANIAN MARKET THAT ARE IN DEMAND

U.S.products comprise 2 percent of Lithuania’s total retail sales of imported food products. The share of sauces and spices manufactured in the U.S. is above the average and comprises 6 percent of the total amount of sauces imported by Lithuania.

B. PRODUCTS OFFERED ON THE LITHUANIAN MARKET THAT DEMAND IS GROWING

There is a growing demand for the following imports, among which U.S. production has a negligible market:

1. Alcoholic beverages. The retail market of imported alcoholic beverages has been growing over the past five years. Annual sales of imported alcoholic beverages in Lithuania can amount to 140-160 million US dollars.

2. Fruit and vegetables. Annual retail sales of imported fruit and vegetables in Lithuania are estimated at 80-100 million US dollars.

3. Fish, crustaceans and mollusks. The retail market is small but growing. It is estimated at 5-10 million US dollars.

C. PRODUCTS TO WHICH IMPORT RESTRICTIONS ARE APPLIED

The retail sugar market is heavily protected in Lithuania. Sugar import duties are as high as 87 percent.

There are powerful lobbies in Lithuania protecting the domestic poultry (especially chicken) market. Heavy sanitary and quality restrictions may be imposed on imported chicken thighs, necks and other inferior chicken products.